



FLEMING-MASON ENERGY  
COOPERATIVE, INC.

P.O. BOX 328 • FLEMINGSBURG, KENTUCKY 41041 • (606) 845-2661 • FAX (606) 845-1008

PCR

February 22, 2011

Mr. Jeff Derouen  
Executive Director  
Kentucky Public Service Commission  
P O Box 615  
211 Sower Boulevard  
Frankfort, Kentucky 40602

RECEIVED

FEB 24 2011

PUBLIC SERVICE  
COMMISSION

**RE: Case No. 2010-00337**

Dear Mr. Derouen:

Fleming-Mason Energy has finalized the RUS refinancing transaction with CoBank. The final amount of the CoBank loan was \$6,649,662.06. Enclosed are three (3) copies of the executed CoBank loan documents and an updated version of Exhibit 3, Attachment B, Page 5 reflecting the savings based on the actual amount of the loan as requested in the final order dated September 10, 2010.

I apologize for the delay in forwarding this information. Please contact the office if you need further information.

Sincerely,

A handwritten signature in cursive script that reads "Joni K Hazelrigg".

Joni K. Hazelrigg  
CFO

Enclosures

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FEB 24 2011

PUBLIC SERVICE  
COMMISSION Loan No. RX0861T1

**PROMISSORY NOTE AND SUPPLEMENT  
(RUS Refinance)**

**THIS PROMISSORY NOTE AND SUPPLEMENT** (this "Promissory Note and Supplement") to the Master Loan Agreement dated as of January 14, 2010 (as amended or restated, the "MLA") is entered into as of October 7, 2010, between **FLEMING-MASON ENERGY COOPERATIVE, INC.**, a Kentucky corporation (the "Company"), and **CoBANK, ACB**, a federally chartered instrumentality of the United States ("CoBank").

**SECTION 1. The Commitment.** On the terms and conditions set forth in the MLA and this Promissory Note and Supplement, CoBank agrees to make a loan to the Company in an amount not to exceed \$6,649,662.06 (the "Commitment"). CoBank's obligation to make the loan shall expire at 12:00 Noon, Company's local time, on October 18, 2010, or on such later date as CoBank may, in its sole discretion, authorize in writing.

**SECTION 2. Purpose.** The purpose of the Commitment is to refinance the unpaid principal balance of the loan(s) made by the United States of America (the "Government") to the Company and described on Exhibit A hereto (the "Existing Loan(s)").

**SECTION 3. Availability.** Notwithstanding Section 2 of the MLA and provided that each of the conditions precedent set forth herein and in the MLA have been satisfied, the loan will be made available to the Company: (A) on a date to be agreed upon by the parties (the "Closing Date"); (B) upon written request of an authorized officer of the Company in form and content prescribed by CoBank (the "Request for Loan"); (C) in a single advance; and (D) by CoBank remitting the proceeds of the loan directly to the Government by wire transfer.

**SECTION 4. Interest.** The Company agrees to pay interest on the unpaid balance of the loan in accordance with one or more of the following interest rate options, as selected by the Company:

**(A) Weekly Quoted Variable Rate.** At a rate per annum equal at all times to the rate of interest established by CoBank on the first Business Day of each week. The rate established by CoBank shall be effective until the first Business Day of the next week. Each change in the rate shall be applicable to all balances subject to this option and information about the then current rate shall be made available upon telephonic request.

**(B) Quoted Rate Option.** At a fixed rate per annum to be quoted by CoBank in its sole discretion in each instance. Under this option, rates may be fixed on such balances and for such periods, as may be agreeable to CoBank in its sole discretion in each instance, provided that: (1) the minimum fixed period shall be 180 days; (2) amounts may be fixed in increments of \$100,000.00 or multiples thereof; and (3) the maximum number of fixes in place at any one time shall be five. The Company has selected a fixed rate of 3.73% per annum through the maturity date of September 20, 2020.

The Company shall select the applicable rate option at the time it requests a loan hereunder and may, subject to the limitations set forth above, elect to convert balances bearing interest at the variable rate option to the fixed rate option. Upon the expiration of any fixed rate period, interest shall automatically accrue at the variable rate option unless the amount fixed is repaid or fixed for an additional period in accordance with the terms hereof. Notwithstanding the foregoing, rates may not be fixed in such a manner as to cause the Company to have to break any fixed rate balance in order to pay any installment of principal. All elections provided for herein shall be made telephonically or in writing and must be

received by 12:00 Noon Company's local time. Interest shall be calculated on the actual number of days the loan is outstanding on the basis of a year consisting of 360 days and shall be payable monthly in arrears by the 20th day of the following month (or on such other day in such month as CoBank shall require in a written notice to the Company), and, if requested by CoBank, on the final maturity date of the loan.

**SECTION 5. Loan Origination Fee.** (Waived by CoBank.)

**SECTION 6. Promissory Note.** The Company promises to repay the loan to CoBank or order in accordance with the payment schedule attached hereto as Exhibit B. In addition to the above, the Company promises to pay to CoBank or order interest on the unpaid principal balance of the loan at the times and in accordance with the provisions set forth above. If any date on which principal or interest is due is not a Business Day, then such payment shall be due and payable on the next Business Day and, in the case of principal, interest shall continue to accrue on the amount thereof.

**SECTION 7. Prepayment.** Subject to the Broken Funding Surcharge provision of the MLA, the Company may prepay the loan in whole or in part. All partial prepayments shall be applied to principal installments in the inverse order of their maturity and to such balances, fixed or variable, as shall be designated by CoBank.

**SECTION 8. Security.** The Company's obligations hereunder and, to the extent related hereto, the MLA, shall be secured as provided in the Security, Guarantee(s) and Title Insurance Section of the MLA.

**SECTION 9. Additional Conditions Precedent.** In addition to the conditions precedent set forth in the MLA, CoBank's obligation to make the loan is subject to the conditions precedent that CoBank shall have received each of the following (which, in the case of instruments and documents, must be in form and content acceptable to CoBank):

(A) **Request for Loan.** A duly completed and executed Request for Loan;

(B) **Payoff Letter.** A payoff letter or spreadsheet from the Government setting forth, as of the Closing Date, the unpaid principal balance of the Existing Loan(s), the interest accrued thereon, and any prepayment premiums, surcharges and other amounts owing to RUS for or on account of the Existing Loan(s);

(C) **Additional RUS Payment.** Immediately available funds in an amount sufficient to pay all interest accrued on the Existing Loan(s) through the Closing Date, together with all prepayment premiums, surcharges, and other amounts owing to the Government for or on account of the Existing Loans (the "Additional RUS Payment");

(D) **RUS Mortgage.** A copy of the Company's existing mortgage and security agreement with the Government and the National Rural Utilities Cooperative Finance Corporation ("CFC"), as amended and supplemented to the date hereof (the "Mortgage");

(E) **Evidence of Recordation.** Such evidence as may be acceptable to CoBank that: (1) the Mortgage has been duly recorded in each place required by Law in order to perfect the Lien of the Mortgage on all real property subject to the Lien of the Mortgage; and (2) all taxes and like charges (if any) arising in connection with the Mortgage or the transactions contemplated therein have been paid;

(F) **Existing UCC-1 Financing Statement(s).** A copy of the existing UCC-1 Financing Statement(s) filed by the Government and CFC, acknowledged as having been filed in all places required by Law in order to perfect the Lien of the Mortgage on all personal property subject to the Lien of the Mortgage;

(G) **Supplemental Mortgage.** A duly executed supplemental mortgage and security agreement (the "Supplemental Mortgage"); and

(H) **Notice to the Government and CFC.** Such evidence as may be satisfactory to CoBank that the Company has notified the Government and CFC of the refinancing (as required by Section 2.02 of the Mortgage).

**SECTION 10. Additional Affirmative Covenants.** In addition to the Affirmative Covenants set forth in the MLA, the Company agrees that:

(A) **Discharge of Existing Loans.** If for any reason the funds remitted to the Government are insufficient to discharge all of the Company's obligations to the Government for or on account of the Existing Loan(s), the Company will promptly make such additional payments to Government as may be required to discharge such obligations in full; and

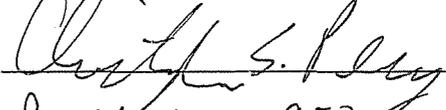
(B) **Post Closing Items.** Within 90 days of the date hereof, the Company will: (1) cause the Government and CFC to sign the Supplemental Mortgage; (2) record the Supplemental Mortgage in all places required by Law in order for the Mortgage, as supplemented by the Supplemental Mortgage, to accord CoBank a duly perfected and recorded Lien on all real property and interests in real property subject to the RUS Mortgage; (3) record a UCC-1 in form and content acceptable to CoBank in each place required by Law in order for the Mortgage, as supplemented by the Supplemental Mortgage, to accord CoBank a duly perfected Lien on all fixtures and personal property of the Company in which a Lien can be perfected by filing a UCC-1 financing statement; and (4) furnish to CoBank (a) recorded, file-stamped copies of the Supplemental Mortgage showing that it has been recorded in each place required above; (b) a copy of each UCC-1 recorded above, acknowledged as having been filed in all places contemplated above; (c) such evidence as CoBank may reasonably require that there are no Liens on any property of the Company other than Liens permitted by the Mortgage; (d) such evidence as may be satisfactory to CoBank that all taxes and other governmental charges arising from the transactions contemplated hereby or the recording of any security instrument or documents, if any, have been paid; and (e) an opinion of its counsel (which opinion and counsel must be acceptable to CoBank).

**IN WITNESS WHEREOF,** the parties have caused this Promissory Note and Supplement to the MLA to be executed by their duly authorized officers as of the date shown above.

**CoBANK, ACB**

By:   
Assistant Corporate Secretary  
Title: Irene Matlin

**FLEMING-MASON ENERGY COOPERATIVE, INC.**

By:   
Title: President + CEO

**EXHIBIT A**

**DESCRIPTION OF RUS LOANS TO BE REFINANCED**

The Existing Loan(s) are as follows:

<b>Lender</b>	<b>RUS Loan No.</b>
RUS	IB300
RUS	IB302
RUS	IB310
RUS	IB312
RUS	IB320
RUS	IB322
RUS	IB330
RUS	IB333
RUS	IB340
RUS	IB343
RUS	IB350
RUS	IB355
RUS	IB360
RUS	IB362
RUS	IB366

**EXHIBIT B****REPAYMENT SCHEDULE**

<b>PAYMENT DUE DATE</b>	<b>PRINCIPAL AMOUNT DUE</b>
10/20/2010	\$45,805.48
11/20/2010	\$45,947.86
12/20/2010	\$46,090.68
1/20/2011	\$46,233.95
2/20/2011	\$46,377.66
3/20/2011	\$46,521.81
4/20/2011	\$46,666.42
5/20/2011	\$46,811.47
6/20/2011	\$46,956.98
7/20/2011	\$47,102.94
8/20/2011	\$47,249.35
9/20/2011	\$47,396.22
10/20/2011	\$47,543.54
11/20/2011	\$47,691.32
12/20/2011	\$47,839.56
1/20/2012	\$47,988.26
2/20/2012	\$48,137.43
3/20/2012	\$48,287.05
4/20/2012	\$48,437.14
5/20/2012	\$48,587.70
6/20/2012	\$48,738.73
7/20/2012	\$48,890.23
8/20/2012	\$49,042.19
9/20/2012	\$49,194.63
10/20/2012	\$49,347.55
11/20/2012	\$49,500.94
12/20/2012	\$49,654.80
1/20/2013	\$49,809.14
2/20/2013	\$49,963.97
3/20/2013	\$50,119.27
4/20/2013	\$50,275.06
5/20/2013	\$50,431.33
6/20/2013	\$50,588.09
7/20/2013	\$50,745.33
8/20/2013	\$50,903.07
9/20/2013	\$51,061.29
10/20/2013	\$51,220.01
11/20/2013	\$51,379.21
12/20/2013	\$51,538.92
1/20/2014	\$51,699.12
2/20/2014	\$51,859.82
3/20/2014	\$52,021.01
4/20/2014	\$52,182.71
5/20/2014	\$52,344.91
6/20/2014	\$52,507.62

<b>PAYMENT DUE DATE</b>	<b>PRINCIPAL AMOUNT DUE</b>
7/20/2014	\$52,670.83
8/20/2014	\$52,834.55
9/20/2014	\$52,998.78
10/20/2014	\$53,163.51
11/20/2014	\$53,328.76
12/20/2014	\$53,494.53
1/20/2015	\$53,660.81
2/20/2015	\$53,827.60
3/20/2015	\$53,994.92
4/20/2015	\$54,162.75
5/20/2015	\$54,331.11
6/20/2015	\$54,499.99
7/20/2015	\$54,669.39
8/20/2015	\$54,839.32
9/20/2015	\$55,009.78
10/20/2015	\$55,180.77
11/20/2015	\$55,352.29
12/20/2015	\$55,524.34
1/20/2016	\$55,696.93
2/20/2016	\$55,870.05
3/20/2016	\$56,043.72
4/20/2016	\$56,217.92
5/20/2016	\$56,392.66
6/20/2016	\$56,567.95
7/20/2016	\$56,743.78
8/20/2016	\$56,920.16
9/20/2016	\$57,097.09
10/20/2016	\$57,274.57
11/20/2016	\$57,452.59
12/20/2016	\$57,631.18
1/20/2017	\$57,810.31
2/20/2017	\$57,990.01
3/20/2017	\$58,170.26
4/20/2017	\$58,351.07
5/20/2017	\$58,532.45
6/20/2017	\$58,714.38
7/20/2017	\$58,896.89
8/20/2017	\$59,079.96
9/20/2017	\$59,263.60
10/20/2017	\$59,447.81
11/20/2017	\$59,632.59
12/20/2017	\$59,817.95
1/20/2018	\$60,003.89
2/20/2018	\$60,190.40
3/20/2018	\$60,377.49
4/20/2018	\$60,565.16
5/20/2018	\$60,753.42
6/20/2018	\$60,942.26
7/20/2018	\$61,131.69

<b>PAYMENT DUE DATE</b>	<b>PRINCIPAL AMOUNT DUE</b>
8/20/2018	\$61,321.71
9/20/2018	\$61,512.32
10/20/2018	\$61,703.52
11/20/2018	\$61,895.31
12/20/2018	\$62,087.70
1/20/2019	\$62,280.69
2/20/2019	\$62,474.28
3/20/2019	\$62,668.47
4/20/2019	\$62,863.27
5/20/2019	\$63,058.67
6/20/2019	\$63,254.68
7/20/2019	\$63,451.29
8/20/2019	\$63,648.52
9/20/2019	\$63,846.36
10/20/2019	\$64,044.82
11/20/2019	\$64,243.89
12/20/2019	\$64,443.58
1/20/2020	\$64,643.89
2/20/2020	\$64,844.83
3/20/2020	\$65,046.39
4/20/2020	\$65,248.57
5/20/2020	\$65,451.39
6/20/2020	\$65,654.83
7/20/2020	\$65,858.91
8/20/2020	\$66,063.62
9/20/2020	\$66,234.55
<b>TOTAL</b>	<b>\$6,649,662.06</b>

**RUS notes proposed for refinancing:**

<b>Note ID</b>	<b>Principal Balance</b>	<b>Final Payment Date</b>	<b>Years Remaining</b>	<b>Weighted Average Life</b>
1B300	37,255.93	08/31/2012	1.92	1.14
1B302	37,255.93	08/31/2012	1.92	1.14
1B310	57,136.37	08/31/2013	2.92	1.67
1B312	57,136.37	08/31/2013	2.92	1.67
1B320	203,497.77	11/30/2014	4.17	2.33
1B322	203,497.77	11/30/2014	4.17	2.33
1B330	261,142.20	08/31/2016	5.92	3.38
1B333	261,588.75	05/31/2016	5.67	3.23
1B340	547,031.21	12/31/2023	13.26	7.31
1B343	562,525.52	12/31/2023	13.26	7.34
1B350	693,769.80	08/31/2027	16.93	9.61
1B355	693,769.80	08/31/2027	16.93	9.61
1B360	1,109,773.97	12/31/2028	18.27	10.47
1B362	389,450.75	12/31/2028	18.27	10.50
1B366	1,534,829.92	02/28/2029	18.43	10.57
<b>Totals</b>	<b>\$6,649,662.06</b>		<b>18.43</b>	<b>8.39</b>

**Interest Savings (over life of notes):**

<b><u>Total Interest RUS @ 5.00%</u></b>	<b><u>Total Interest CoBank @ 3.73%</u></b>	<b><u>Total Savings</u></b>
<b>\$2,813,842</b>	<b>\$1,340,208</b>	<b>\$1,473,634</b>
<b>CoBank Cash Patronage Refund:</b>		<b>\$229,429</b>
<b>CoBank Stock Patronage Refund:</b>		<b><u>\$123,538</u></b>
<b>Total Life Time Benefit:</b>		<b><u>\$1,826,601</u></b>
<b>Present Value of Benefit (discounted @ 5.0%)</b>		<b><u>\$601,098</u></b>

There are no prepayment penalties arising from prepayment of RUS debt. CoBank would document this transaction using outside counsel to be paid by Fleming-Mason. The estimated cost is \$5,000 and is included in the loan analysis under tab 2 (shown in the column Legal Cost/Pat. Refund). The documentation cost is considered in the effective interest rate analysis.